

**REPORT OF THE AUDIT OF THE
BRECKINRIDGE COUNTY
SHERIFF'S SETTLEMENT - 2015 TAXES**

**For The Period
April 16, 2015 Through April 15, 2016**



**MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**209 ST. CLAIR STREET
FRANKFORT, KY 40601-1817
TELEPHONE 502.564.5841
FACSIMILE 502.564.2912**

EXECUTIVE SUMMARY
AUDIT OF THE
BRECKINRIDGE COUNTY
SHERIFF'S SETTLEMENT - 2015 TAXES

For The Period
April 16, 2015 Through April 15, 2016

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2015 Taxes for the Breckinridge County Sheriff for the period April 16, 2015 through April 15, 2016. We have issued a qualified opinion on the financial statement taken as a whole.

Financial Condition:

The sheriff collected 2015 taxes of \$9,707,312 for the districts, retaining commissions of \$399,228 to operate the sheriff's office. The sheriff distributed 2015 taxes of \$9,305,324 to the districts. Taxes of \$38 are due to the districts from the sheriff and refunds of \$256 are due to the sheriff from the taxing districts.

Report Comments:

- 2015-001 The Sheriff Did Not Have Sufficient Policies And Procedures Or Internal Controls Over Fire Dues Exonerations Processing
- 2015-002 The Sheriff Did Not Adequately Segregate Duties Or Provide Sufficient Oversight To Ensure An Accurate Tax Settlement Process For Tax Year 2015
- 2015-003 The Sheriff Did Not Have Sufficient Internal Controls Or Policies And Procedures In Place For Reconciling And Settling The Tax Account
- 2015-004 The Sheriff Did Not Follow The Minimum Requirements For Handling Public Funds In The 2015 Tax Settlement
- 2015-005 Interest Was Not Properly Distributed
- 2015-006 The Form Provided To Taxpayers To Allow Opting Out Of Fire Dues Did Not Contain All Of The Required Information

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Matthew G. Bevin, Governor
William M. Landrum III, Secretary
Finance and Administration Cabinet
Honorable Maurice D. Lucas, Breckinridge County Judge/Executive
Honorable Todd Pate, Breckinridge County Sheriff
Members of the Breckinridge County Fiscal Court

Independent Auditor's Report

Report on the Financial Statement

We have audited the Breckinridge County Sheriff's Settlement - 2015 Taxes for the period April 16, 2015 through April 15, 2016 - Regulatory Basis, and the related notes to the financial statement.

Management's Responsibility for the Financial Statement

Management is responsible for the preparation and fair presentation of the financial statement in accordance with accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting as described in Note 1. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and the *Audit Guide for Sheriff's Tax Settlements* issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



To the People of Kentucky

Honorable Matthew G. Bevin, Governor

William M. Landrum III, Secretary

Finance and Administration Cabinet

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Honorable Todd Pate, Breckinridge County Sheriff

Members of the Breckinridge County Fiscal Court

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note 1 of the financial statement, the financial statement is prepared by the Breckinridge County Sheriff on the basis of accounting practices prescribed or permitted by the laws of Kentucky to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the taxes charged, credited and paid of the Breckinridge County Sheriff, for the period April 16, 2015 through April 15, 2016.

Basis for Qualified Opinion on Regulatory Basis of Accounting

Breckinridge County Sheriff's Settlement - 2015 Taxes for the period April 16, 2015 through April 15, 2016 includes subscription fees collected for volunteer fire departments which did not have adequate records to support a material amount of exonerated subscription fees. Since there were not sufficient accounting records maintained to support exonerated subscription fees, the tax settlement financial information presented for the volunteer fire departments, including exonerated subscription fees, total credits, taxes due, taxes collected, and amounts due districts cannot be determined to be reasonably accurate.

Qualified Opinion on Regulatory Basis of Accounting

In our opinion, except for the possible effects of the matters discussed in the Basis for Qualified Opinion on Regulatory Basis of Account paragraph, the financial statement referred to above presents fairly, in all material respects, the taxes charged, credited, and paid for the period April 16, 2015 through April 15, 2016 of the Breckinridge County Sheriff, in accordance with the basis of accounting practices prescribed or permitted by the Commonwealth of Kentucky as described in Note 1.

To the People of Kentucky

Honorable Matthew G. Bevin, Governor

William M. Landrum III, Secretary

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Honorable Todd Pate, Breckinridge County Sheriff

Members of the Breckinridge County Fiscal Court

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 14, 2017 on our consideration of the Breckinridge County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Breckinridge County Sheriff's internal control over financial reporting and compliance.

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- 2015-001 The Sheriff Did Not Have Sufficient Policies And Procedures Or Internal Controls Over Fire Dues Exonerations Processing
- 2015-002 The Sheriff Did Not Adequately Segregate Duties Or Provide Sufficient Oversight To Ensure An Accurate Tax Settlement Process For Tax Year 2015
- 2015-003 The Sheriff Did Not Have Sufficient Internal Controls Or Policies And Procedures In Place For Reconciling And Settling The Tax Account
- 2015-004 The Sheriff Did Not Follow The Minimum Requirements For Handling Public Funds In The 2015 Tax Settlement
- 2015-005 Interest Was Not Properly Distributed
- 2015-006 The Form Provided To Taxpayers To Allow Opting Out Of Fire Dues Did Not Contain All Of The Required Information

Respectfully submitted,



Mike Harmon

Auditor of Public Accounts

February 14, 2017

BRECKINRIDGE COUNTY
TODD PATE, SHERIFF
SHERIFF'S SETTLEMENT - 2015 TAXES

For The Period April 16, 2015 Through April 15, 2016

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 935,264	\$ 2,026,393	\$ 4,551,621	\$ 1,018,769
Tangible Personal Property	55,820	89,226	232,101	138,779
Fire Protection	2,956			
Increases Through Exonerations	126	194	612	138
Franchise Taxes	157,239	246,797	682,212	
Additional Billings	45	69	217	49
Oil and Gas Property Taxes	6,108	9,380	29,558	6,653
Limestone, Sand and Gravel Property Taxes	882	1,355	4,271	961
Bank Franchises	63,421			
Penalties	4,785	9,747	23,247	5,305
Adjusted to Sheriff's Receipt	(63)	(1,190)	(161)	(81)
Gross Chargeable to Sheriff	1,226,583	2,381,971	5,523,678	1,170,573
<u>Credits</u>				
Exonerations (3)	1,339	242,712	6,508	1,456
Discounts	18,412	31,661	82,179	19,562
Delinquents:				
Real Estate	13,977	39,816	68,100	15,195
Tangible Personal Property	340	536	1,406	515
Franchise Taxes	7,514	11,887	32,378	
Total Credits	41,582	326,612	190,571	36,728
Taxes Collected	1,185,001	2,055,359	5,333,107	1,133,845
Less: Commissions (1)	50,363	87,353	213,324	48,188
Taxes Due	1,134,638	1,968,006	5,119,783	1,085,657
Taxes Paid	1,134,322	1,967,466	5,118,234	1,085,302
Refunds (Current and Prior Year)	350	540	1,706	382
(Refunds Due Sheriff) as of Completion of Audit	\$ (34)	\$ 0	\$ (157)	\$ (27)
		(2)		

(1), (2), and (3) see next page.

The accompanying notes are an integral part of this financial statement.

BRECKINRIDGE COUNTY
TODD PATE, SHERIFF
SHERIFF'S SETTLEMENT - 2015 TAXES
For The Period April 16, 2015 Through April 15, 2016
(Continued)

(1) Commissions:		
10% on	\$	4,374,205
4.25% on	\$	5,333,107
(2) Special Taxing Districts:		
Library District	\$	(20)
Health Department		(6)
Extension District		(10)
Soil Conservation		(2)
McDaniels Fire Department		<u>38</u>
Due District or		
(Refunds Due Sheriff)	\$	<u>0</u>
(3) Exoneration for Fire Districts		
included in Special Districts Total	\$	<u>240,480</u>

The accompanying notes are an integral part of this financial statement.

BRECKINRIDGE COUNTY
NOTES TO FINANCIAL STATEMENT

April 15, 2016

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

KRS 66.480 authorizes the sheriff's office to invest in obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Breckinridge County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240, the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the sheriff's deposits may not be returned. The Breckinridge County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 66.480(1)(d) and KRS 41.240. As of April 15, 2016, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

BRECKINRIDGE COUNTY
NOTES TO FINANCIAL STATEMENT
April 15, 2016
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2015. Property taxes were billed to finance governmental services for the fiscal year ended June 30, 2016. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 15, 2015 through April 22, 2016.

B. Oil, Gas and Limestone, Sand and Gravel Property Taxes

The tangible property tax assessments were levied as of January 1, 2015. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 13, 2015 through May 16, 2016.

C. Franchise Taxes

The franchise assessments were levied by the Kentucky Department of Revenue for various tax years. Franchise taxes are billed to finance governmental services. The collection period for these assessments was April 16, 2015 through April 15, 2016.

Note 4. Interest Income

The Breckinridge County Sheriff earned \$564 as interest income on 2015 taxes. As of February 14, 2017, the sheriff owed \$3 in interest to the school district and \$20 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Breckinridge County Sheriff collected \$34,388 of 10% add-on fees allowed by KRS 134.119(7). This amount was used to operate the sheriff's office. As of February 14, 2017, the sheriff owed \$205 in 10% add-on fees to his fee account.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*



MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Maurice D. Lucas, Breckinridge County Judge/Executive
Honorable Todd Pate, Breckinridge County Sheriff
Members of the Breckinridge County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With *Government Auditing Standards*

Independent Auditor's Report

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Breckinridge County Sheriff's Settlement - 2015 Taxes for the period April 16, 2015 through April 15, 2016 - Regulatory Basis and the related notes to the financial statement and have issued our report thereon dated February 14, 2017. The Breckinridge County Sheriff's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered the Breckinridge County Sheriff's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Breckinridge County Sheriff's internal control. Accordingly, we do not express an opinion on the effectiveness of the Breckinridge County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying comments and recommendations, we identified certain deficiencies in internal control that we consider to be a material weakness and significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comments and recommendations as item 2015-001 to be a material weakness.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With *Government Auditing Standards*
(Continued)

Internal Control Over Financial Reporting (Continued)

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying comments and recommendations as items 2015-002, 2015-003, and 2015-004 to be significant deficiencies.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Breckinridge County Sheriff's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying comments and recommendations as items 2015-003, 2015-004, 2015-005, and 2015-006.

Sheriff's Responses to Findings

The Breckinridge County Sheriff's responses to the findings identified in our audit are described in the accompanying comments and recommendations. The Sheriff's responses were not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,



Mike Harmon
Auditor of Public Accounts

February 14, 2017

COMMENTS AND RECOMMENDATIONS

BRECKINRIDGE COUNTY
TODD PATE, SHERIFF
COMMENTS AND RECOMMENDATIONS

For The Period April 16, 2015 Through April 15, 2016

FINANCIAL STATEMENT FINDINGS:

2015-001 The Sheriff Did Not Have Sufficient Policies And Procedures Or Internal Controls Over Fire Dues Exonerations Processing

According to fiscal court ordinance, taxpayers can choose not to pay fire dues subscriber fees (fire dues) by completing a Notice of Subscriber Fee Non Payment form and providing the completed form to the sheriff when they pay their tax bill each year. The form should be completed and maintained on file by the sheriff to support the fire dues that are exonerated or removed from tax bills.

For the 2015 tax collection period, the sheriff included \$240,480 on his settlement as fire dues that were exonerated. There should have been a properly completed form on file for each \$40 fire due, or approximately 6,012 forms. The sheriff's staff said they did not require each taxpayer to fill out a form and that if the bill payment was short by \$40, they assumed the taxpayer was "opting out." Furthermore, many of the forms were incomplete, with some having an illegible signature. Because of this, sufficient audit evidence could not be obtained to determine whether \$240,480 in fire dues were legitimately exonerated. The auditor was also told that any person in the sheriff's office that accepts tax payments could exonerate or remove \$40 from a bill without secondary or supervisory approval. This lack of internal controls leaves \$240,480 at increased risk of fraud or material error. Because of this increased risk, the lack of internal controls, and lack of documentation, audit procedures could not be performed on these exonerations and auditors could not determine whether the financial statement was free from fraud or material errors.

The sheriff has not implemented policies and procedures or internal controls over the exoneration process, leaving a material amount of money susceptible to fraud or material errors. Good internal controls require clear policies and procedures to address the process and documentation of exonerating any part of a tax bill. The process of exonerating a bill should be documented and should be limited to only certain personnel.

We recommend the sheriff implement sufficient internal controls to ensure accurate processing of fire dues exonerations. The sheriff should develop standardized policies and procedures for staff to follow, including:

- Maintaining properly completed opt out forms for each taxpayer;
- Documenting the forms in an orderly, consistent manner to provide an audit trail;
- Limiting the ability to exonerate to only certain personnel; and
- Periodic reviewing or spot-checking exonerations against opt out forms.

Sheriff's Response: Policies have been implemented to correct the deficiencies. Had the 2014 Audit comments been made available to us prior to the 2015 tax collection period, I feel that we could have made the proper changes and avoided these comments in this audit.

Auditor Reply: It is the sheriff's responsibility to implement sufficient policies and procedures and internal controls for his tax settlement process regardless of when audit findings are presented.

BRECKINRIDGE COUNTY
TODD PATE, SHERIFF
COMMENTS AND RECOMMENDATIONS
For The Period April 16, 2015 Through April 15, 2016
(Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-02 The Sheriff Did Not Adequately Segregate Duties Or Provide Sufficient Oversight To Ensure An Accurate Tax Settlement Process For Tax Year 2015

During tax year 2015, the bookkeeper accepted tax payments, recorded taxes paid, prepared the daily deposit, prepared monthly tax reports, prepared monthly disbursements checks, and co-signed monthly disbursements checks. There was no documented review or approval by another individual to provide evidence of oversight. There were also numerous errors noted in the settlement, including:

- The incorrect tangible multiplier rate was used for the county on five franchise bills. There were various other tangible tax calculation errors for the remaining taxing districts on the same five franchise bills.
- Commissions were calculated incorrectly for the February and March oil tax reports for the library and the March oil tax report for soil conservation.
- The bank did not provide backs of cancelled checks.
- There was not a documented reconciliation of the tax account to the tax bank accounts.

The sheriff has not provided sufficient oversight of the tax settlement process to ensure all taxes collected are recorded and disbursed accurately. Most of the errors could have been prevented or detected if the sheriff had developed standard policies and procedures for the tax settlement process based on requirements documented in state statutes and the *Property Tax Duties of the Sheriff's Office* manual provided by the Office of Property Valuation. The lack of oversight could result in misappropriation of assets and inaccurate financial reporting to external agencies such as the Department of Revenue and taxing districts. Undetected errors or fraud could also occur. Proper segregation of duties over receipts and disbursements is essential for providing protection of asset misappropriation and inaccurate financial reporting. Additionally, proper segregation of duties protects employees in the normal course of performing their daily responsibilities. Good internal controls dictate that management be sufficiently involved in the day to day operations to ensure internal controls are in place and working to prevent and detect errors or fraud. Policies and procedures should be developed to identify and address routine tax settlement issues.

We recommend the sheriff become sufficiently familiar with the tax settlement processing to be able to identify areas where policies and procedures are lacking and where internal controls should be strengthened. The sheriff should ensure sufficient records are maintained and that staff responsible for this activity understand the complexities of the tax settlement process. The sheriff should seek additional training or guidance if necessary. We also recommend the following compensating controls be implemented to offset the lack of segregation of duties:

- The sheriff should require an employee that does not accept tax payments to prepare the bank reconciliation. The sheriff should compare the bank reconciliation to the balance in the checkbook and any differences should be reconciled. The sheriff should document his oversight by initialing the bank reconciliation and the balance in the checkbook.
- The sheriff should compare total tax collections per the monthly reports to the total of the monthly disbursement checks. Any discrepancies should be resolved and the review should be documented by initialing and dating the monthly reports.

BRECKINRIDGE COUNTY
 TODD PATE, SHERIFF
 COMMENTS AND RECOMMENDATIONS
 For The Period April 16, 2015 Through April 15, 2016
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-02 The Sheriff Did Not Adequately Segregate Duties Or Provide Sufficient Oversight To Ensure An Accurate Tax Settlement Process For Tax Year 2015 (Continued)

Sheriff's Response: Policies have been implemented to correct the deficiencies. Had the 2014 Audit comments been made available to us prior to the 2015 tax collection period, I feel that we could have made the proper changes and avoided these comments in this audit.

Auditor Reply: It is the sheriff's responsibility to implement sufficient policies and procedures and internal controls for his tax settlement process regardless of when audit findings are presented.

2015-003 The Sheriff Did Not Have Sufficient Internal Controls Or Policies And Procedures In Place For Reconciling And Settling The Tax Account

We reviewed the sheriff's tax settlement and bank statements and noted the following control deficiencies:

- Credit card payments deposited into the bank account were not tracked, posted timely to the tax accounting system, or reconciled regularly to ensure all payments were posted accurately.
- The bookkeeper did not document her monthly reconciliations of the 2015 tax account, franchise account, and money market bank accounts.
- There are funds in the 2015 tax account from prior tax years.

The sheriff's office does not have policies and procedures in place to ensure all receipts are accounted for by reconciling the bank statements and credit card payments monthly to the tax accounting system. Without these policies and procedures, the risk of misstatements in reconciling of receipts and disbursements significantly increases due to error or fraud.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. County officials are provided guidelines for minimum accounting and reporting standards for the county receipts in the *County Budget Preparation and State Local Finance Officer Policy Manual*. Those standards include monthly bank reconciliations.

Strong internal controls and proper accounting procedures dictate that all receipts and disbursements should be accounted for, maintained with supporting documentation, and reconciled to the bank accounts. A sheriff's tax settlement account should balance to zero every year, as all funds received are paid out to districts or to the sheriff's fee account in the form of commissions, penalties, and interest. Monthly bank reconciliations are essential to detect any errors made the previous month, payments not posted to the tax accounting system, or credit card payment issues.

We recommend the sheriff implement the following procedures:

- Credit card payments should be processed timely, tracked, reconciled, and accurately maintained with supporting documentation.
- All monthly reconciliations of bank accounts to the tax accounting system should be documented.
- Tax collections should be maintained separately for each tax year.

BRECKINRIDGE COUNTY
 TODD PATE, SHERIFF
 COMMENTS AND RECOMMENDATIONS
 For The Period April 16, 2015 Through April 15, 2016
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-003 The Sheriff Did Not Have Sufficient Internal Controls Or Policies And Procedures In Place For Reconciling And Settling The Tax Account (Continued)

Sheriff's Response: Policies have been implemented to correct the deficiencies. Had the 2014 Audit comments been made available to us prior to the 2015 tax collection period, I feel that we could have made the proper changes and avoided these comments in this audit.

Auditor Reply: It is the sheriff's responsibility to implement sufficient policies and procedures and internal controls for his tax settlement process regardless of when audit findings are presented.

2015-004 The Sheriff Did Not Follow The Minimum Requirements For Handling Public Funds In The 2015 Tax Settlement

The following control deficiencies were noted:

- Taxpayer overages are put into a petty cash drawer and used for stamps for the sheriff's office or if another taxpayer's payment is short.
- Cash and check totals per daily tax collection reports do not always agree to cash and check totals on the bank deposit tickets.

The sheriff's office does not follow procedures to ensure all receipts are accounted for by balancing cash and checks collected to the accounting system and deposit tickets to the ledger. Without appropriate policies and procedures, the risk of misstatements in reporting of tax receipts significantly increases due to error or fraud. The risk of receipts being collected and not deposited also increases.

KRS 68.210 gives the State Local Finance Officer the authority to prescribe a uniform system of accounts. The Department for Local Government (DLG) *County Budget Preparation & State Local Finance Officer Policy Manual* requires daily deposits intact into a federally insured banking institution. Additionally, adequate internal controls over deposits and cash receipts are essential to providing protection from asset misappropriation, and helping prevent inaccurate financial reporting. We recommend the sheriff comply with DLG's requirements and implement procedures to ensure deposits are made intact daily, and cash and checks per the daily tax collection reports agree to the bank deposit tickets.

Sheriff's Response: Policies have been implemented to correct the deficiencies. Had the 2014 Audit comments been made available to us prior to the 2015 tax collection period, I feel that we could have made the proper changes and avoided these comments in this audit.

Auditor Reply: It is the sheriff's responsibility to implement sufficient policies and procedures and internal controls for his tax settlement process regardless of when audit findings are presented.

BRECKINRIDGE COUNTY
 TODD PATE, SHERIFF
 COMMENTS AND RECOMMENDATIONS
 For The Period April 16, 2015 Through April 15, 2016
 (Continued)

FINANCIAL STATEMENT FINDINGS: (Continued)

2015-005 Interest Was Not Properly Distributed

The sheriff did not properly distribute the interest earned on all his tax accounts. The bookkeeper failed to distribute the interest earned from May to November of 2015 from the franchise tax account. She also failed to calculate commissions on the school's portion of the interest earned. By not properly disbursing interest each month, the fee account and the board of education have not received all funds that are due to them. This also can create reconciliation issues since all funds received for the month are not distributed. KRS 134.140 details how the sheriff is to distribute tax commissions received in all tax accounts each month between his fee account and the local board of education based on the amount of taxes collected during the month. Also, KRS 160.500 gives the sheriff the authority to keep a four percent commission on the board of education's portion of the interest. The sheriff should properly distribute interest earned on all tax accounts on a monthly basis per KRS 134.140 and KRS 160.500.

Sheriff's Response: The sheriff did not respond.

2015-006 The Form Provided To Taxpayers To Allow Opting Out Of Fire Dues Did Not Contain All Of The Required Information

The 2015 Fire Dues Opt Out Forms mailed to taxpayers with their tax bill does not meet the criteria set out in the county's ordinance. The ordinance requires specific information about the taxpayer as well as a statement that the taxpayer understands that by not paying the fire dues subscription fee they will be charged for any fire protection service or emergency service as allowed by state law. The sheriff's form includes only a name, bill number, signature, and date. By not using a form that documents all of the required elements of the ordinance, the sheriff is causing any taxpayer that did not pay the fire dues to be out of compliance with the ordinance. Furthermore, taxpayers are not provided the statement that alerts them to the requirement that they must pay for fire protection and emergency services if they opt out of paying the fire dues subscription fee. This could lead to substantial costs to taxpayers who may not be aware of the consequences of opting out.

The fiscal court passed Ordinance Number 2011-0314 allowing fire dues, or annual membership charges and/or subscriber fees to be added to the property tax bills collected by the sheriff. The ordinance allows taxpayers to "opt out" of paying the fee if the property owner follows the procedures outlined in the ordinance. Section V of the ordinance reads, in part: "In order to delete any parcel(s) of property from membership charges/subscriber fees, the owner shall, upon payment of his property taxes, and no later than the date the Breckinridge County Sheriff files the delinquent tax claims in the Breckinridge County Clerk's Office, pursuant to Chapter 134 of KRS, for any particular tax year, provide a statement to the Breckinridge County Sheriff's Office (on form titled "Notice of Subscriber Fee Non Payment") that contains the following: a. Name of owner including mailing address. b. Name of the fire department servicing the parcel. c. Parcel number from tax bill. d. A statement will be provided on the form that in lieu of subscriber fees the owner will be responsible for charges for fire protection service or other emergency per state law. e. Signature of subscriber/property owner."

We recommend the sheriff revise the opt out form to meet the requirements of the Notice of Subscriber Fee Non Payment form as documented in Fiscal Court Ordinance 2011-0314.

Sheriff's Response: The sheriff did not respond.

